

# Chapter-II

**Accountability framework and financial reporting in Urban Local Bodies**



## Chapter II

### Urban Development Department

#### Accountability framework and financial reporting in Urban Local Bodies

#### A. Functioning of Urban Local Bodies

##### 2.1 Introduction

The 74<sup>th</sup> Constitutional Amendment Act (CAA) enacted in 1992 envisaged creation of Local Self Governments for urban areas. The amendment sought to empower Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the Twelfth Schedule of the Constitution. In Karnataka, the ULBs are categorized according to their population<sup>6</sup>.

City Corporations (CC) are governed by the Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by the Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area has been divided into several wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area. The basic information relating to ULBs are given in **Table 2.1**.

**Table 2.1: Basic information of the State**

Indicators	Unit	State	National
Population	In lakhs	610.95	12,105.69
Urban Population	In lakhs	236.26	3,771.06
Urban Population	Percentage of population	38.7	31.20
Population density	Persons/Sq. Kms	319.00	382.00
Urban Sex Ratio	Per Thousand	963.00	929.00
Urban Literacy rate	Percentage (2011 census)	85.80	84.10
City Corporations	Numbers	11*	-
City Municipal Councils	Numbers	61	-
Town Municipal Councils	Numbers	123	-
Town Panchayats	Numbers	117	-
Notified Area	Numbers	4	-

\*Includes BBMP

Source: Karnataka at a Glance (Census of India 2011) and Directorate of Municipal Administration (DMA).

<sup>6</sup> City Corporation- 3,00,000 and above, City Municipal Council-50,000 to below 3,00,000, Town Municipal Council -20,000 to below 50,000 and Town Panchayat 10,000 to below 20,000 and Notified Area Committees are administered separately by a committee.

Karnataka is the seventh most urbanised State with 38.7 *per cent* of population living in urban areas and the urban literacy of the State (85.80 *per cent*) is above the National literacy rate (84.10 *per cent*).

## **2.2 Organisation Structure of ULBs**

The Urban Development Department (UDD), headed by the Additional Chief Secretary to Government, is the nodal department. The Directorate of Municipal Administration (DMA) established in December 1984 is the nodal agency responsible for the administrative, developmental and financial activities of all ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under UDD.

All ULBs except Notified Area Committees (NACs) have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council. NACs are administered separately by a Committee under the control of Deputy Commissioner. The Commissioner/Chief Officer is the executive head of ULBs. The organisational structure of ULBs is as shown in **Appendix 2.1**.

## **2.3 Audit Mandate of CAG with respect to ULBs**

The GoK entrusted the audit of ULBs to CAG from the year 2008-09 under Section 14(2) of CAG's (DPC) Act. Subsequently, KM Act amended Section 290(1) as 'audit of all City Municipal Councils, Town Municipal Councils and Town Panchayats in a year shall be subjected to Technical Guidance and Supervision by the CAG through Complementary Audit and submit Annual Technical and Inspection Report'. Similarly, an amendment to KMC Act, inserted sub section (2-A) under section 150 according to which 'the audit of all transactions of receipts and expenditure of Municipal Corporations shall be subject to Technical Guidance and Supervision of the CAG'. With effect from 1 April 2011, GoK entrusted TGS under section 20(1) of CAG's (DPC) Act.

## **2.4 Devolution of functions**

Sections 58 and 59 of Chapter V of KMC Act and Section 87 and 91 of Chapter V of KM Act empower Corporations and Municipal Councils to make adequate provisions to carry out obligatory and discretionary functions. The 74<sup>th</sup> CAA envisaged devolution of 18 functions listed in the Twelfth Schedule of the Constitution to ULBs (**Appendix 2.2**) Among the 18 functions, the State Government transferred 17 functions to ULBs, the exception being "Fire Services".

### **2.4.1 Devolution of funds**

Section 140 of KMC Act provides for levy of duty on transfer of immovable property in the form of a surcharge at the rate of two *per cent* of the duty imposed by the Karnataka Stamp Act, 1957, on instruments of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of a larger urban area. The entire amount collected in respect of the lands and other properties situated in the urban areas shall be passed on to ULBs in the State, in proportion to the population of ULBs by the IGR&CS after deducting 10 *per cent* towards collection charges.

Further, the ULBs were empowered to levy property tax every year on all buildings or vacant lands or both situated within their jurisdiction under section 103/108A of the KMC Act and Section 94 read with Section 108 of the KM Act. Self-assessment scheme was introduced by the Government from 2001-02 for assessment and collection of property tax by owners of the properties. The DMA developed an online property tax calculator through which property owners could assess and pay their taxes.

The 4<sup>th</sup> SFC had identified five sources of tax revenue and 30 sources of non-tax revenue such as building plan/licence approval fees, trade licence, rent from shops/markets/commercial establishments, water charges, parking fee, UGD charges, cable laying charges *etc.*, that could be levied by ULBs to augment their own resources. Audit observed that the ULBs were tapping 30 of these 35 identified sources. The details of the five sources that were not tapped are indicated below in **Table 2.2**.

**Table 2.2: Details of the five sources that were not tapped**

Sl. No.	Source	Statutory provision exists or not
1	Levy of tax on animals	Yes
2	Other fees and tolls	Yes
3	Cable laying charges	Can be levied subject to preparation of byelaws by ULBs and approval from Government
4	Greenery charges	No
5	Dog fee	No

Source: KM and KMC Acts.

#### **2.4.2 Devolution of functionaries**

The State Government regulates the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of staff and officers of ULBs in accordance with the Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010 and the Karnataka Municipal Corporations (Common Recruitment of Officers and Employees) Rules, 2010. The category of posts and recruitment authorities are indicated below in **Table 2.3**.

**Table 2.3: Category of posts and recruitment authorities**

Category of post	Authority
Group A	State Government
Group B and C	Director of Municipal Administration (DMA) or Officer empowered by Government
Group D	Deputy Commissioner (DC) for City Municipal Councils (CMCs), Town Municipal Councils (TMCs) and Town Panchayats (TPs) and Municipal Commissioner for CCs

Source: Information furnished by DMA

The State Government notified the Cadre and Recruitment Rules (C&R Rules) for Municipalities and Corporations during January 2011 and April 2011 respectively. The C&R Rules were not designed for function-wise requirement of staff as there was no sanctioned post of Environment Engineer in TPs and the existing Health Inspector was in-charge of solid waste management.

## 2.5 Formation of Committees

As per Section 11 of KMC Act and Section 63 of KM Act, the Corporations and Municipalities shall constitute different committees like Standing Committee, Ward Committee, District Planning Committee.

### 2.5.1 Standing Committees in ULBs

All ULBs other than BBMP have four<sup>7</sup> Standing Committees whereas BBMP has eight<sup>8</sup> Standing Committees. The Mayor / Deputy Mayor and the President / Vice-President of ULBs are *ex-officio* members of all the Standing Committees. The details of few committees are shown in **Table 2.4**.

**Table 2.4: List of Committees**

Sl. No	Committee Name	Members	Purpose / Powers
1	Taxation Committees	11 in BBMP 7 for others	Shall deal with all matters relating to finance and taxation and all matters not specifically assigned to any other standing committee.
2	Accounts Committee	11 in BBMP 7 for others	Shall deal with all matters relating to accounts and audit.
3	Town planning Committee	11 in BBMP 7 for others	Shall deal with all matters relating to public works, town planning and improvement.
4	Works Committee	11 ( only for BBMP)	Shall deal with all major works in the jurisdiction of BBMP like Flyovers, Underpasses, Subways, Road Widening, Ring Roads, Elevated Roads and all works incidental thereto including land acquisition.
5	Public Health Committee	11 in BBMP 7 for others	The Standing Committee for public health, education and social justice shall deal with all matters relating to public health and education and securing the social justice to persons belonging to the Scheduled Castes, Scheduled Tribes and other weaker sections of the society and women.

Source: KMC and KM Acts

The State Government stated (July 2024) that presently Standing Committees are working in Ballari, Belagavi, Davanagere, Hubballi-Dharwad, Kalaburagi, Mangaluru, Mysuru Municipal Corporations. In respect of Shivamogga and Tumakuru, Administrative Officers are assigned and in Vijayapura the Standing Committee is yet to be formed due to Model Code of Conduct.

### 2.5.2 Ward Committees

The Constitution provides for Ward Committees in all Municipalities with a population of three lakh or more. As per Section 13H of KMC Act, Ward Committee shall be constituted by all the Corporations. The term of these bodies

<sup>7</sup> Taxation, finance and appeals; public health, education and social justice; town planning and improvement; and accounts.

<sup>8</sup> Taxation and finance and appeals; public health, solid waste and disaster management; ward level public works, town planning and infrastructure; education and social justice; horticulture; markets; audit and accounts and establishment and administrative reforms.

will be co-terminus with the Council. The Ward Committees were to act as a bridge between the Municipal Government and citizens to function as institutions of neighbourhood governance and increase proximity between elected representatives and citizens to provide a space for citizen participation at the local level planning. They were to perform duties such as preparation and submission of ward development schemes for allotment of funds, ensure proper utilisation of allotted funds, and maintenance of public utilities and to safeguard the assets of the Corporation.

Ward Committees were constituted in BBMP and three<sup>9</sup> out of 10 CCs (January 2023).

The State Government stated (July 2024) the following reasons for the non-formation of Ward Committees in the remaining CCs as detailed in **Table 2.5**.

**Table 2.5: Reasons for non-formation /delayed formation of Ward Committees in CCs.**

City Corporations	Reasons for the delay
Ballari	Applications are accepted only for nine wards out of 39 wards. For other wards, the prescribed number of applications was not received, as such, the action would be taken to issue a public press release in the general meeting.
Belagavi	The required number of applications for forming the respective Ward Committees have not been received.
Davanagere	Action will be taken as per the decision of the General Assembly meeting subject No: 09 regarding the formation of Ward Committees in the remaining 23 wards.
Hubballi-Dharwad	Action would be taken as per the directions issued by DMA vide letter dated: 19.01.2024.
Kalaburagi	842 applications have been received from 55 wards. In the rest of the wards, the prescribed number of applications had not been received. Accordingly, the matter would be brought to the notice of the general meeting.
Mangaluru	Agenda has been presented to the Council regarding the nomination of representatives to the Area Sabhas of 60 wards vide Council Resolution No: 48/23-24 Dated: 28.07.2023. However, vide Council Resolution No. 49/2023-24 Dated: 28.07.2023, the said agenda had been postponed until the formation of the Area Sabha bye-laws. A committee has already been constituted under the chairmanship of the Hon'ble Mayor regarding framing of Bylaws as per Section-13J for smooth functioning of Ward Committees and Area Sabhas. Accordingly, after completion of draft of the bye-laws, the steps will be taken to form the area council.

<sup>9</sup> Mangaluru CC (60 wards), Shivamogga CC (35 wards), Tumakuru CC (35 wards).

City Corporations	Reasons for the delay
Mysuru	A letter had been addressed to the Government regarding the criteria and process for nominating the members and action will be taken as per the clarification from Government.
Shivamogga	The term of the Elected Governing Body had expired on 27.11.2023.
Tumakuru	The term of the Elected Governing Body in Tumakuru City Corporation has expired on 29.01.2024. Therefore, it has been informed that Area Councils have not been formed.
Vijayapura	Election of Mayor and Sub-Mayor was held on 09.01.2024 and the Ward Committees will be formed soon.

Source: Reply of the State Government.

### 2.5.3 District Planning Committee

Article 243ZD of the Constitution of India provides for the constitution of a DPC for consolidation of plans prepared by the Panchayats and the Municipalities. The DPC was to prepare a comprehensive DDP with regard to matters of common interest between the Panchayats and the Municipalities including spatial planning; sharing of water and other physical and natural resources; integrated development of infrastructure and environment conservation and extent and type of available resources, whether financial or otherwise. The DDP was to be forwarded to the State Government through the Decentralised Planning and Development Committee (DPDC) for integration into the State plan. Funds for the DPCs were to be mobilised through annual contribution from the rural and urban local bodies. Further, in accordance with the circular issued (April 2001) by the State Government, the DPC was to conduct meetings regularly. The details of the DPC meetings conducted is awaited.

The DPCs were constituted in all districts except Bagalkote (July 2017). DPCs were reconstituted (September 2020) to formulate development plans. The DPC in Bagalkote was not formed, as the matter is pending in Hon'ble High Court.

## 2.6 Delegation of Financial Powers

The delegation of financial powers is provided in Sections 181 and 182 of KMC Act and Rule 6, 6A and Rule 7 of KMC Rules 1977 as amended from time to time. Details of delegation of financial powers as provided in these rules are as follows:

### 2.6.1 Powers relating to works

The State Government revised (November 2016) the administrative, technical and tender approval powers relating to ULBs for undertaking basic infrastructure works. The administrative approval of powers as per the revised orders is given in **Table 2.6**.



**Table 2.6: Statement showing the administrative approval of powers for ULBs**

(₹ in lakh)

Category of ULB	Officer Commissioner /Chief	Standing Committee	Council	Deputy Commissioner	DMA	Government
CC	≤50	>50 ≤ 100	>100 ≤	>200 ≤ 500	>500 ≤1,000	≥1,000
CMC-I	≤15	>15 ≤ 3330	>30 ≤	>100 ≤ 500		
CMC-II	≤10	>10 ≤ 20	>20 ≤ 50	>500 ≤ 500		
TMC	≤5	>5 ≤ 15	>15 ≤ 30	>30 ≤ 500		
TP	≤2	>2 ≤ 10	>10 ≤ 15	>15 ≤ 500		

Source: Government order No. UDD 184 MNE Bengaluru dated 11 November 2016

Further, the authorities indicated in the above table have the powers to approve tenders as per their administrative powers for tenders involving tender premium less than or equal to five *per cent*. For tender premium greater than five *per cent* but less than or equal to 10 *per cent*, the powers are vested with DMA and for tenders up to ₹1,000 lakh and beyond 10 *per cent*, the powers are vested with the Government. The engineers of CCs and CMCs have powers to accord technical sanction up to ₹500 lakh and ₹50 lakh, respectively while the engineers of TMCs and TPs have powers up to ₹5 lakh.

### 2.6.2 Powers relating to other expenditure

The State Government amended (February 2004) the Karnataka Municipalities (Powers of Expenditure) Rules, 1986 wherein expenditure powers are specified for Town and City Municipalities. However, the expenditure limits as indicated in **Table 2.6** have not been revised for more than 19 years.

The State Government stated (July 2024) that steps will be taken to revise the expenditure limits through consultation with the ULBs.

## 2.7 System of Accounting

Financial reporting is a key element of accountability. On the recommendations of 11<sup>th</sup> CFC, GoI had entrusted the responsibility of prescribing appropriate accounting formats for ULBs to CAG.

The Ministry of Urban Development, GoI had developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government brought out the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR) based on NMAM with effect from 1 April 2006. KMABR was introduced in a phased manner in all ULBs except BBMP. All ULBs were preparing fund-based accounts in double entry system. BBMP was maintaining Fund Based Accounting System (FBAS) based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001 and has switched over (2015-16) to Integrated Financial Management System (IFMS).

The State Government stated (July 2024) that based on KMABR and NMAM, draft BBMP (Accounting & Budgeting) Rules, 2020 approved by the Council is under consideration.

## 2.8 Ombudsman

As per the recommendations of the 13<sup>th</sup> CFC, the State Government was required to put in place a system of independent local body Ombudsman to investigate complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials. It was observed that an independent ombudsman was not appointed.

The State Government stated (July 2024) that the Project Directors in the District Urban Development Cells (DUDC) created in the District Commissioner office are investigating and taking action on the complaints/appeals submitted against the officers/employees of the ULBs of the respective districts. In cases of serious allegations, an investigation team is assigned by the DMA office to get a report and take necessary action. Hence, it was felt the appointment of separate Ombudsman was not necessary.

The action of the State Government is in contravention of 13<sup>th</sup> CFC recommendations.

## 2.9 Fire Hazard

As per the guidelines of the 13<sup>th</sup> CFC, all Municipal Corporations with a population of more than one million (2001 Census) must put in place a fire hazard response and mitigation plan for their respective jurisdictions. In Karnataka, there is only one ULB with more than one million population (2011 Census), *i.e.*, BBMP. For the city of Bengaluru, a fire hazard response and mitigation plan has been uploaded on the website [www.municipaladm.gov.in](http://www.municipaladm.gov.in). However, the same has not been published in the State Gazette.

The State Government stated (May 2024) that 74<sup>th</sup> CAA devolved 18 functions listed in 12<sup>th</sup> schedule of constitution to ULBs. Out of 18, 17 functions were transferred to ULBs. Fire Fighting services had not yet been transferred to BBMP and hence not included in BBMP Act.

## B Financial Profile and Reporting

### 2.10 Financial Profile

#### 2.10.1 Resources of Urban Local Bodies

The details of revenue received by the ULBs (other than BBMP) and BBMP during the period 2017-18 to 2021-22 are shown in **Table 2.7** and **Table 2.8**.

**Table 2.7: Resources of ULBs (Other than BBMP)**

Year	Grants		Own revenue	Total Revenue
	GoK	GoI		
2017-18	1,422	2,634	1,515	5,571
2018-19	1,125	2,467	1,543	5,135
2019-20	2,881	1,450	1,713	6,044
2020-21	2,552	1,183	1,787	5,522
2021-22	2,615	603	2,207	5,425

Source: Information furnished by DMA

**Table 2.8: Resources of BBMP**

(₹ in crore)

Year	Grants		Own Revenue	Total Revenue
	GoK	GoI		
2017-18	275.30	3,754.68	2,825.12	6,855.10
2018-19	301.72	3,417.28	2,688.88	6,407.88
2019-20	2,206.77	487.85	3,715.52	6,410.14
2020-21	3,512.20	279.00	3,369.93	7,161.13
2021-22	3,053.23	140.22	5,586.83	8,780.27

Source: Information furnished by BBMP

**Table 2.7** shows that the capacity of ULBs (other than BBMP) to generate own revenue during the period 2017-18 to 2021-22 was not encouraging as the proportion of own revenue to total receipts was in the range of 27 to 41 *per cent* for ULBs.

**Table 2.8** shows the mixed trend in generation of own revenue in BBMP. However, for BBMP the proportion of own revenue to total receipts was in the range of 41 *per cent* to 64 *per cent*.

The State Government accepted (July 2024) the audit findings.

### 2.10.2 Application of Resources

The details of expenditure of ULBs (other than BBMP) and BBMP for the period from 2017-18 to 2021-22 is as shown in **Table 2.9** and **Table 2.10**.

**Table 2.9: Application of Resources of ULBs (Other than BBMP)**

(₹ in crore)

Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue	3,661	3,441	3,996	3,650	4,571
Capital	1,797	1,171	2,006	2,082	2,062

Source: Information furnished by DMA

It can be seen from **Table 2.9** that revenue expenditure increased by 25 *per cent* while the Capital expenditure increased during the years 2017-18 to 2021-22 by 15 *per cent* in respect of ULBs (other than BBMP).

**Table 2.10: Application of Resources of BBMP**

(₹ in crore)

Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue	3,354.10	2,719.91	6,411.22	6,379.18	4,309.93
Capital	4,009.16	3,793.66	681.86	694.50	4,537.26

Source: Information furnished by BBMP.

It can be seen from **Table 2.10** that revenue expenditure increased by 28 *per cent* while the Capital expenditure increased by 13 *per cent* during the years 2017-18 to 2021-22 in respect of BBMP.

As could be observed from above (**Table 2.7** to **Table 2.10**) the ULBs were more dependent on grants received from Central and State Government to meet their Capital and Revenue expenditure.

The State Government stated (May 2024) that measures were being taken to control fiscal expenditure to provide more funding for capital expenditure.

### 2.10.3 Position of Receipts and Expenditure of major Schemes

Receipt and expenditure incurred on major schemes implemented by ULBs during the period from 2017-18 to 2021-22 is given in **Table 2.11**.

**Table 2.11: Receipts and Expenditure of major schemes**

(₹ in crore)

Year	Receipts				Expenditure			
	SBM	AMRUT	UIDSS MT	PKGBY	SBM	AMRUT	UIDSS MT	PKGBY
2017-18	131.27	408.86	326.08	42.64	86.46	814.90	227.63	43.42
2018-19	399.71	812.54	145.97	42.90	37.61	1,012.20	116.76	9.23
2019-20	72.00	837.24	0.00	57.10	8.53	1,198.21	13.62	43.64
2020-21	00.00	581.21	0.00	29.71	157.05	784.98	30.10	40.31
2021-22	199.01	156.65	0.00	30.00	47.3	325.54	24.72	28.24
<b>Total</b>	<b>801.99</b>	<b>2,796.50</b>	<b>472.05</b>	<b>202.35</b>	<b>336.95</b>	<b>4,135.83</b>	<b>412.83</b>	<b>164.84</b>

Source: DMA

SBM: Swachh Bharat Mission

AMRUT = Atal Mission for Rejuvenation and Urban Transformation

UIDSSMT= Urban Infrastructure Development Scheme for Small and Medium Towns

PK-GBY = Pourakarmika Gruha Bhagya Yojane

It could be seen from the above that in respect of SBM, the expenditure was only 42 *per cent* against total receipt for the years 2017-18 to 2021-22 and in respect of AMRUT programme, the expenditure was more than the receipts due to spending receipts pertaining to previous years.

The State Government stated (July 2024) that 63 *per cent* of the released funds have been utilized under the SBM scheme till date (July 2024). The reasons of the delay include COVID- Pandemic, public protest near SWM sites, non-availability of land, multiple calls of tender due to non-participation, model code of conduct due to State elections, Lok Sabha elections, bye-elections *etc.*

### 2.10.4 Status of collection of Property Tax

The State Government stated (May 2024) that a Self-Assessment Scheme (SAS) was introduced for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected, balance and percentage of collection to total demand at the end of March 2022 in respect of all ULBs (except BBMP) and targets fixed and collections against targets in respect of ULBs and BBMP are shown in **Tables 2.12** and **Table 2.13** respectively.

**Table 2.12: Position of demand, collection and balance of property tax in ULBs**

(₹ in crore)

Year	Opening Balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2017-18	596	802	1,398	745	653	53
2018-19	653	898	1,551	738	812	48
2019-20	812	851	1,664	773	891	46
2020-21	891	1,579	2,470	856	1,614	35
2021-22	1,614	983	2,597	931	1,666	36

Source: Details furnished by DMA.

It can be seen that arrears of property tax had increased from ₹653 crore in 2017-18 to ₹1,666 crore in 2021-22 and the collection decreased from 53 *per cent* during 2017-18 to 36 *per cent* during 2021-22.

**Table 2.13: Status of collection of property tax in BBMP**

(₹ in crore)

Year	Number of properties for which tax collected	Total Demand	Actual Collection	Balance	Percentage of collection
2017-18	15,46,459	3,734.00	2,133.26	1,600.74	57
2018-19	16,30,770	4,429.00	2,529.42	1,899.58	57
2019-20	17,30,989	4,860.00	2,686.29	2,173.71	55
2020-21	18,07,589	4,899.00	2,781.45	2,117.55	57
2021-22	18,89,345	4,870.10	3,010.40	1,859.70	62

Source: Budget and details furnished by BBMP

BBMP failed to collect property tax in accordance with the demand from 2017-18 to 2021-22. However, the collection increased from 57 *per cent* during 2017-18 to 62 *per cent* during 2021-22.

The State Government stated (BBMP-May 2024, ULB-July 2024) that property tax could not be collected to its full potential due to COVID-19 pandemic during 2019-20 to 2020-21. BBMP has introduced (February 2024) One Time Settlement Scheme (OTS) for the benefit of taxpayers and it is expected to collect the pending tax dues at the earliest. The reply indicates the fact of poor collection of property tax as the same was within the range of 55 to 62 *per cent* only.

### Property Tax Board

The 13<sup>th</sup> CFC recommended that State Governments must constitute a State level Property Tax Board, which would assist all Municipalities and Municipal Corporations in the State to put in place an independent and transparent procedure for assessing property tax. Further, Sections 102A to 102Y under Chapter IX-A of KMC Act provides for establishment of the Karnataka Property Tax Board by the State Government.

The Property Tax Board was established in the State during July 2020 and Non-Official Expert Member was appointed for the Board during November 2020.

#### 2.10.5 Non/short remittance of cess

Section 108A of KMC Act provides for levy and collection of Property Tax along with the applicable cess such as health, library and beggary cess in respect of CCs including BBMP. The authority mandating the levy of cess, the rates and the head of account/institution to which the cess is to be remitted are as detailed in **Table 2.14**.

**Table 2.14: Details of cess to be levied on property tax by ULBs**

Sl. No	Type of cess	Authority mandating levy of cess	Effective From	Rate (per cent)	Purpose	To be remitted to
1	Health Cess	The Karnataka Health Cess Act, 1962	September 1962	15	Improve primary/ basic health care infrastructure	0045-00-109-0-01 (State Fund)
2	Library Cess	The Karnataka Public Libraries Act, 1965	April 1966	6	Improvement and development of library services	District Central/ City Library
3	Beggary Cess	The Karnataka Prohibition of Beggary Act, 1975	April 1976	3	Provide relief and rehabilitation to the beggars	Central Relief Fund

Source: KMC Act

Scrutiny of the information furnished by DMA and BBMP showed that huge balances of cess collected during the period 2017-18 to 2021-22 were not remitted to the departments concerned as detailed in the **Table 2.15** and **Table 2.16** respectively.

**Table 2.15: Details of collection, remittance and balance of cess in ULBs (Other than BBMP)**

(₹ in crore)

Year	Health Cess				Library Cess				Beggary Cess			
	OB	C	R	CB	OB	C	R	CB	OB	C	R	CB
2017-18	261	68	29	300	46	27	21	52	32	19	12	39
2018-19	300	70	20	350	52	28	23	57	39	21	12	48
2019-20	350	118	48	420	57	33	44	46	48	22	39	31
2020-21	420	132	84	468	46	53	48	51	31	27	29	29
2021-22	468	107	71	504	51	44	41	54	29	22	21	30

Source: Information furnished by DMA

OB: Opening Balance C: Collected R: Remitted CB: Closing Balance

The ULBs in the State had not remitted ₹504.00 crore of health cess, ₹54.00 crore of library cess and ₹30.00 crore of beggary cess to the departments/ heads of account concerned.

**Table 2.16: Details of collection, remittance and balance of cess in BBMP**

(₹ in crore)

Year	Health Cess				Library Cess			Beggary Cess		
	C	Rtd	R	B	C	R	B	C	R	B
2017-18	235.46	23.55	0	211.91	83.38	14.00	61.04	46.56	19.22	22.68
2018-19	273.31	27.33	0	245.98	101.16	78.09	12.95	54.58	10.00	39.12
2019-20	286.23	28.62	0	257.61	114.49	13.00	90.04	57.24	102.00	-50.48
2020-21	298.99	29.90	0	269.09	119.59	75.00	32.63	59.79	46.00	7.81
2021-22	322.88	32.28	0	290.59	127.45	55.00	59.70	63.72	45.00	12.35
<b>Total</b>	<b>1,416.87</b>	<b>141.69</b>	<b>0</b>	<b>1,275.18</b>	<b>546.07</b>	<b>235.09</b>	<b>256.36</b>	<b>281.89</b>	<b>222.22</b>	<b>31.48</b>

Source: Information furnished by BBMP

C: Collected R: Remitted B: Balance Rtd.: 10 per cent collection charges eligible to be retained by BBMP.

Further, BBMP failed to remit health cess of ₹1,275.18 crore (excluding collection charges of ₹141.69 crore), library cess of ₹256.36 crore and beggary cess of ₹31.48 crore to the departments/head of accounts concerned, which is in violation of provisions of KMC Act.

The State Government stated (July 2024) that DMA has issued Circular instructions directing all the ULBs including 10 CCs to transfer the cess amount collected as per the Fund Based Accounting System records to an ESCROW Bank Account automatically and remit the same to the concerned authorities. Accordingly, the ULBs are taking action to transfer the cess amount collected to the concerned authorities.

In respect of BBMP, exemption has been sought (December 2023) for payment of health cess as BBMP is providing health services by way of referral, maternity and other health services. Steps are being taken to pay the cess amount in a phased manner. Library cess and beggary cess will be remitted regularly.

#### **2.10.6 Release of duty on transfer of immovable properties**

As per Section 140 of KMC Act, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of two *per cent* of the duty imposed by the Karnataka Stamp Act, 1957 on instruments of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of a larger urban area. The Additional Stamp Duty collected in respect of the lands and other properties situated in the urban areas shall be passed on to ULBs in the State, in proportion to the population of the ULBs by the IGR&CS after deducting 10 *per cent* towards collection charges.

The duty on transfer of immovable properties of ₹31.86 crore (97 *per cent*), out of duty collected of ₹32.85 crore for the years 2017-18 and 2018-19 were released to ULBs during December 2018 and September 2021 and the duty on transfer of immovable properties to ULBs for the years 2019-20 to 2021-22 is under progress (January 2023).

The State Government stated (May 2024) BBMP is yet to realise ₹82.24 crore of Additional Stamp Duty as at the end of March 2022.

#### **2.10.7 Central Finance Commission**

Article 280(3)(C) of the Constitution mandated the CFC to recommend measures to augment the Consolidated Fund of a State to supplement the resource of ULBs based on the recommendations of the respective SFCs. While the 14<sup>th</sup> CFC recommended basic grant and performance grant to ULBs, 15<sup>th</sup> CFC recommended tied<sup>10</sup> and untied<sup>11</sup> grants.

The details of funds received from GoI and transferred to ULBs by GoK during 2017-18 to 2021-22 is shown in **Table 2.17**.

**Table 2.17: Details of release of 14<sup>th</sup> and 15<sup>th</sup> FC Grants to ULBs during 2016-17 to 2019-20**

(₹ in crore)

Year	Basic Grant			Performance Grant		
	Allocation	Release	Shortfall	Allocation	Release	Shortfall
<b>14<sup>th</sup> CFC</b>						
2017-18	808.02	808.02	0.00	259.94	256.16	3.78
2018-19	738.55	738.55	0.00	295.20	0.00	295.20
2019-20	997.60	998.17	-0.57	0.00	0.00	0.00

<sup>10</sup> Grants given for specific purpose and not intended for any other purpose.

<sup>11</sup> Discretionary grants.

Year	Basic Grant			Performance Grant		
	Allocation	Release	Shortfall	Allocation	Release	Shortfall
<b>15<sup>th</sup> CFC</b>						
2020-21	991.00	991.00	0.00	There is no performance grant concept in 15 <sup>th</sup> CFC		
2021-22	750.00	750.00	0.00			

Source: Information furnished by DMA

There was a short release of Performance Grants to the ULBs for the year 2017-18 amounting to ₹3.78 crore and ₹295.20 crore for the year 2018-19.

The State Government stated (July 2024) that though the claim towards shortfall in release of Performance Grants to ULBs to the extent of ₹3.78 crore for the year 2017-18 and ₹295.20 crore for the year 2018-19 was with GoI, the same were not released till date.

### 2.10.8 Utilisation of 14<sup>th</sup> and 15<sup>th</sup> CFC Grants

The details of releases, utilisation and balance amount in respect of 14<sup>th</sup> and 15<sup>th</sup> CFC grants are shown in **Table 2.18**.

**Table 2.18: Details of amount utilised against the release of 14<sup>th</sup> and 15<sup>th</sup> CFC grants**

(₹ in crore)				
Sl.no.	Particulars	Released Amount	Utilised Amount	Un-utilised Amount
<b>14<sup>th</sup> CFC</b>				
1	2017-18 Basic Grants	808.02	798.59	9.43
2	2017-18 Performance Grants	256.16	161.64	94.52
3	2018-19 Basic Grants	738.55	738.55	0.00
4	2019-20 Basic Grants	998.17	972.56	25.61
<b>15<sup>th</sup> CFC</b>				
1	2020-21	991.00	822.7	168.3
2	2021-22	750.00	571.01	178.99

Source: Information furnished by DMA

The State Government did not furnish (July 2024) any reasons for non-utilization of available funds.

## 2.11 Reporting framework

### 2.11.1 Functioning of Finance/Accounts Sections of ULBs

As per KMABR, every municipality shall follow the chart of accounts, accounting and budgeting procedures and maintain or cause to maintain such books of account as prescribed in these rules to adequately record all incomes, expenditures, assets and liabilities in respect of each fund. It should also maintain or cause to maintain forms and registers prescribed in the rules to record all financial transactions.

The Finance/Accounts section assists the Municipal Commissioner or the Chief Officer in preparation of the budget. It maintains accounts related records, prepares monthly accounts and consolidated Demand Collection and Balance statements. It also prepares annual financial statements comprising Receipt and Payment account, Income and Expenditure account, Balance Sheet and significant accounting policies followed in the presentation of the financial statements and Notes to Accounts which shall disclose contingent liabilities and



such other information as may be useful in understanding the financial statements clearly.

### **2.11.2 Financial statements certification in ULBs**

According to KMABR (Rule 125), ULBs shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet and Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit them to the Chartered Accountants (auditor) appointed by the State Government, within two months from the end of the financial year.

The auditor should complete the audit within four months (July) from the date of closure of financial year (31 March) and after completion of audit, should submit a report along with the audited accounts to the Municipal Council and the State Government. The audited accounts should be adopted by the Council within five months from the end of the financial year.

Accounts of 24 ULBs out of 309 ULBs were certified for the year 2020-21 and 18 ULBs out of 315 ULBs were certified for the year 2021-22 as at the end of December 2022.

The State Government stated (June 2024) that preparation of Annual Accounts for the year 2021-22 of all ULBs has been completed.

### **2.11.3 Financial statements certification in BBMP**

In terms of provision 9(2) of Part II Schedule IX to KMC Act, the Commissioner, BBMP is required to prepare annual accounts every year and produce the accounts along with relevant records to the Chief Auditor for scrutiny not later than the first day of October in the year succeeding to which such account and registers relate.

However, the Principal Director, KSAAD, who is the statutory Auditor for BBMP, had audited the accounts of BBMP up to 2020-21 only (February 2023).

The State Government stated (May 2024) the annual accounts for the year 2021-22 have been submitted for certification.

## **2.12 Audit Arrangements**

### **2.12.1 Internal audit**

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the ULBs.

The DMA did not have Internal Audit Wing to supervise the functions of ULBs and stated (July 2024) that the Government approved (August 2018) the upgradation and sanctioned additional post, which would be utilized for establishing the Internal Audit Wing.

The State Government stated (July 2024) that though Internal Audit Wing has been established in DMA, audit is being done with available personnel due to shortage of staff.

In respect of BBMP, the draft Rules and Regulations for establishment of Internal Audit Wing is under approval.

## 2.12.2 External audit

### 2.12.2.1 Audit by Karnataka State Audit and Accounts Department

The Principal Director, KSAAD, is the Primary Auditor of ULBs as per Section 150 of KMC Act and Section 290 of KM Act. The Primary Auditor's duty, *inter alia*, is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to audit entities and to the State Government. The status of audit by KSAAD during the period 2017-18 to 2021-22 in respect of ULBs is shown in **Table 2.19**. The Auditor is required to prepare a report on the accounts audited/examined and send a report to the Municipal Council concerned and the DMA. The Principal Director, KSAAD shall send consolidated Annual Audit Report pertaining to CMCs, TMCs, and TPs to the State Government for being placed before both Houses of the State Legislature. The Act/Rules are silent about the discussion of the consolidated Annual Audit Report.

**Table 2.19: Statement showing the details of audit of ULBs by KSAAD as of March 2022**

Year	CC		CMC		TMC/TP/NAC	
	Total	Audited	Total	Audited	Total	Audited
2017-18	11	10	56	48	210	184
2018-19	11	04	59	37	211	134
2019-20	11	04	58	24	212	91
2020-21	11	00	59	00	214	05
2021-22	11	02	59	18	218	65

Source: Information furnished by KSAAD

As seen above, the number of units audited by the KSAAD for 2018-19 to 2021-22 was drastically reduced compared to the year 2017-18.

The State Government did not furnish any reply.

#### • Non-inclusion of TGS aspect in the manual of KSAAD

The KSAAD was governed by the Mysuru Local Fund Audit Manual 1967 and other manual/instructions issued from time to time. Due to the amendments to relevant Acts and Rules and major changes in the system of accounting of many of the auditees including GPs and ULBs, the KSAAD manual was revised and submitted to the State Government in November 2014 for approval and the approved manual was brought out in August 2016. Though the audit of GPs and ULBs were entrusted to CAG under TGS with effect from 2010-11 and 2011-12 respectively, this aspect was not mentioned in the manual. Insertion of the entrustment to CAG under TGS module and the terms and conditions in the manual will create awareness among the audit staff of KSAAD and streamline the TGS system and make it more fruitful.

### 2.12.2.2 Audit by CAG

Under the TGS Module, this office has audited 22 ULBs and 21 audit units of BBMP in 2020-21, and 18 ULBs and 17 units of BBMP in 2021-22. CAG undertakes Performance Audits and Compliance Audits also in ULBs.

- **Performance audit**

During 2021-22, this office conducted Performance Audit on “*Mukhayamantrigala Nagarothana Yojane Phase-III*”. Performance Audit was conducted under section 13, 14, 15, 16, 17, 19 and 20 read with Section 23 of CAG’s (DPC) Act and regulation 45 to 52 of Regulation on Audit and Accounts-2020. The report was placed in the State Legislature (December 2022).

- **Compliance audit**

During 2021-22, this office has conducted various Compliance Audits under section 14(2) of CAG’s (DPC) Act.

- **Responsiveness to Audit**

Authorities were required to comply with the observations contained in the IRs issued by Accountant General, Karnataka and report their compliance within one month from the date of issue of such IRs. The details of outstanding paragraphs in respect of ULBs as on 31 March 2022 are shown in **Table 2.20**.

**Table 2.20: Statement showing the details of non-compliance of the outstanding IRs and paragraphs**

Year	Number of IRs	Number of Paragraphs
Up to 2017-18	511	9,040
2018-19	114	1,833
2019-20	14	258
2020-21	04	48
2021-22	38	242
<b>Total</b>	<b>681</b>	<b>11,421</b>

Source: Monthly Progress Report

Out of 681 IRs outstanding, 625 IRs (91.78 *per cent*) containing 10,873 paragraphs (95.20 *per cent*) were pending for more than three years indicating inadequate action on the part of ULBs.

## 2.13 Paragraphs to be discussed by the Committee on Local Bodies and Panchayat Raj Institutions

As at the end of March 2022 there were no paras pending for discussion by the LB and PRI committee.

## Conclusion

During the period 2017-22, the proportion of own revenue to total receipts in respect of ULBs (other than BBMP) was in the range of 27 *per cent* to 41 *per cent* only, while the same for BBMP was in the range of 41 *per cent* to 64 *per cent*. Arrears of property tax in ULBs (other than BBMP) had increased from

₹653.00 crore in 2017-18 to ₹1,666.00 crore in 2021-22 and the collection decreased from 53 *per cent* during 2017-18 to 36 *per cent* during 2021-22. Arrears of property tax in BBMP had increased from ₹ 1,600.00 crore in 2017-18 to ₹1,860.00 crore in 2021-22 and the collection increased from 57 *per cent* during 2017-18 to 62 *per cent* during 2021-22. ULBs (other than BBMP) in the State have not remitted ₹504.00 crore of health cess, ₹54.00 crore of library cess and ₹30.00 crore of beggary cess to the departments / heads of account concerned. BBMP did not remit the entire health cess of ₹1,275.18 crore, library cess of ₹256.36 crore and beggary cess of ₹31.48 crore. The duty on transfer of immovable properties to ULBs for the year 2019-20 to 2021-22 was under progress (January 2023). The Property Tax Board was established in the State only during July 2020. The State Government did not have an Internal Audit Wing to oversee the functions of BBMP. Out of 681 Inspection Reports outstanding, 625 Inspection Reports containing 10,873 paragraphs were pending for more than three years indicating inadequate action on the part of ULBs.